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SUBJECT: FLUSH WITH CASH--COLOMBIA'S RISING INFLOW OF
DOLLARS

REF: BOGOTA 6103

11. (U) SUMMARY: Colombia's international reserves have topped USD 20 billion for the first time ever. Rising exports, foreign direct investment, and remittances, as well as increased international borrowing, have infused Colombia's financial system with dollars and solidified its debt-service capacity. Although a portion derives from illicit activities such as narcotics trafficking, the majority of the inflows reflect Colombia's booming economy and increased investor confidence. Negatively, the surplus of U.S. dollars in the economy has hastened the 10 percent appreciation of Colombia's currency this year and tilted the country's trade balance into a deficit for 2007. END SUMMARY.

The Good--Exports, Investment, and Debt Coverage Up

12. (U) The largest source of Colombia's dollar inflows has been exports, which totaled USD 12.9 billion in the first half of 2007 or 14 percent higher than the same period in 12006. Colombia's continued export growth coincides with a steady increase in investment and remittances. Foreign direct investment (FDI) for the first half of 2007 totaled USD 4.1 billion--a 43 percent increase compared to 2006--with the largest flows directed into the energy, industrial and commercial sectors. During the same period remittances from Colombian expatriates totaled USD 2 billion or six percent more than 2006. As a result, Colombia's international reserves are now more than two and half times its short-term external debt obligations, increasing Colombia's buffer against market shocks and lowering the risk premium the GOC must pay for financing.

The Bad--Imports, External Borrowing, and the Peso Up Too

13. (U) Conversely, imports, fueled by the strong Colombian Peso, grew 26 percent to USD 14 billion for the first half of 2007 and are expected to shift Colombia's trade balance into deficit for the year. External debt financing also increased significantly (115 percent), totaling USD 6.7 billion. According to the Central Bank, private businesses in Colombia received almost USD 2.8 billion in external financing in the first half of the year while the GOC received USD 3.9 billion. Critics of GOC monetary policy attribute much of the appreciation of the Colombian Peso to the government's borrowing habits. However, with rising tax collections (reftel), the GOC aims to lower its fiscal deficit in 2008.

In an unsuccessful effort to slow the appreciation of the Colombian Peso, the Central Bank has purchased USD 4.7 billion in dollars this year, further swelling Colombia's international reserves.

The Ugly--Drug Proceeds Continue to Flow In

14. (U) Local analysts acknowledge that a portion of the dollars entering Colombia derive from illicit activities, principally profits from narcotics trafficking, but emphasize the difficulty in accurately measuring such inflows. Colombia's National Directorate for Taxes and Customs (DIAN) estimates that at least USD 946 million in illicit funds entered Colombia between January and September in comparison to USD 1.8 billion during the same period in 2006. Given the difficulty in measuring illicit inflows, however, local analysts cannot confirm such a decrease but have suggested that large seizures of drug money in June and July may have persuaded traffickers to temporarily seek different havens for their profits.

Brownfield